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Farmers Home Administration

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Direct Farm Operating Loans For Socially Disadvantaged Persons

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Direct Farm Operating Loans for Socially Disadvantaged Persons

The Farmers Home Administration (FmHA) is authorized by the Food, Agriculture, Conservation, and Trade Act of 1990 (1990 FACT Act—Public Law 101-624) to target funds for direct farm operating loans to socially disadvantaged farmers or ranchers whose operations are not larger than family size.

A socially disadvantaged farmer or rancher is one of a group whose members have been subjected to racial, ethnic, or gender prejudice because of their identity as members of the group without regard to their individual qualities. For purposes of this loan program, socially disadvantaged groups are women, African Americans, American Indians, Alaskan Natives, Hispanics, Asians, and Pacific Islanders.

The Purpose of the Program is to:

- Target farm operating loan assistance to socially disadvantaged persons;
- Discover and remove obstacles that prevent the full participation of those persons in the farm operating loan program;
- Provide necessary technical assistance to qualified applicants and to develop sound farm management practices essential for success in their farming operations.

These loans are tailored to a borrower's needs. The FmHA County Supervisor helps the borrower analyze problems, determine available resources, and plan the best use of those resources.

How May Loan Funds Be Used?

Farm operating loans may be used to pay for items needed for a successful operation. These may include livestock, poultry, farm and home equipment, feed, seed, fuel, fertilizer, chemicals, hail and other crop insurance, food, clothing, medical care, and hired labor. Certain debts may be refinanced with this assistance.

Funds may be used to make minor improvements to buildings and real estate, and install or improve water systems for home, livestock, and irrigation use. Funds also may be used to finance the purchase of equipment for producing and harvesting trees and other products, for aquaculture operations, roadside produce markets, and certain nonfarm business enterprises.

In addition, farmers may use operating loan funds to control and abate pollution and to alter equipment, facilities, or methods of operation to comply with the Occupational Safety and Health Act of 1970.

Who May Borrow?

Individuals, partnerships, joint operations, corporations, and cooperatives primarily and directly engaged in farming and ranching on family-size operations may apply. A "family-size" farm is considered to be one that a family can operate and manage itself.

In addition to being members of a socially disadvantaged group, individual applicants under this program must meet all requirements for FmHA's regular farmer program assistance. To be eligible, an individual must:

- Have a satisfactory history of meeting credit obligations;

- Have sufficient education, training, or at least 1 year's experience in managing or operating a farm or ranch within the last 5 years;
- Possess the industry and ability needed to succeed in farming;
- Be a citizen of the United States (or a legal resident alien), including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and certain former Pacific Island Trust Territories;
- Be unable to obtain credit elsewhere at reasonable rates and terms to meet actual needs;
- Possess the legal capacity to incur the obligations of the loan;
- Be the owner or tenant operating not larger than a family-size farm after the loan is closed.

In the case of corporations, cooperatives, joint operations, or partnerships, the stockholders, members, or partners holding a majority interest must meet these same eligibility requirements. The borrowing entity must be authorized to operate a farm or ranch in the State where the actual operation is located. In addition, the entity must be owned by U.S. citizens or legal resident aliens, and the socially disadvantaged members must hold a majority interest in the entity.

If the individuals holding a majority interest in the entity are related by blood or marriage, at least one stockholder, member, or partner must operate the family farm. If they are not related by blood or marriage, those holding a majority interest must operate the farm.

What Are the Terms and Interest Rates?

Repayment terms for direct loans are different for different types of loans. Repayment is scheduled according to the borrower's ability to repay. Loan terms can be as short as 1 year and as long as 7 years. Some loans can be extended up to 15 years beyond the original time limit. The interest rates for direct loans are set periodically according to the Government's cost of borrowing.

Each direct loan borrower is expected to refinance the unpaid balance of the loan when the operation can feasibly rely on commercial credit. A borrower may be indebted to FmHA for no more than \$200,000 in direct operating loans at any one time.

Limited Resource Loans

Under FmHA's limited-resource program, eligible borrowers who are unable to pay the regular rate of interest may be eligible to obtain loans at a reduced rate of interest.

To qualify for limited-resource rates, borrowers must meet the eligibility requirements for FmHA farm loan assistance. In addition, they must be unable to pay regular interest rates because of low income or other factors beyond their control.

Borrowers who receive limited resource interest rates will be reviewed annually to determine their financial progress and repayment ability. If it is determined that they have the ability to pay a higher rate of interest, their interest rate will be raised to a level not higher than the existing rate for regular operating loans.

How Do I Apply?

Applications for all FmHA direct farmer program loans are made through FmHA's County Offices. To find the County Office serving your area, look in the local telephone directory under "United States Government, Department of Agriculture, Farmers Home Administration." Personnel at the County Office will help you complete an application and answer any questions you may have.

The Loan Approval Process

An application is first reviewed by the FmHA County Committee, which determines the eligibility of the applicant under the law. The committee consists of three members who are active participants in the farm community. Two members are elected by the local farmers, and one member is appointed by the FmHA State Director.

An applicant who is found eligible for assistance does not automatically get a loan. Before a loan can be made, it must be determined that the applicant meets all requirements for loan approval. The FmHA County Supervisor works with the applicant to develop a plan for the farming operation. This plan must make the best use of all the resources available, including land, labor, livestock, equipment, and the money being borrowed.

To approve a loan application, the County Supervisor must ascertain that the applicant's farming operation will generate enough income to meet operating and family living expenses, plus enough to repay the loan and other debts. County Offices are allowed up to 60 days to process operating loan applications, once all necessary information is received. Potential borrowers are encouraged to apply well before the start of the growing season to allow ample time for processing.

What Security is Required?

FmHA will require a lien on the applicant's assets, usually crops, livestock and livestock products to be produced, and equipment purchased or refinanced with loan funds. Assignments are usually taken on income produced on a regular basis, such as that from a dairy operation.

What Assistance May the Borrower Expect After Receiving the Loan?

FmHA gives farmer program borrowers advice to help them use their resources most efficiently and run their operations profitably.

Can a Part-time Farmer Qualify For a Loan?

Yes, if the farmer is otherwise eligible and the income from farming is necessary to the family.

Does it Cost Anything to Apply?

No. If a loan is made, however, the borrower pays the fees charged for lien searches and for filing and recording security instruments.

What Other Loans Are made by FmHA?

FmHA also makes loans to buy and develop farms; buy and develop land for housing sites; buy, build, or improve rural homes; build farm labor housing and essential farm buildings; finance income-producing projects for rural youth; and meet the emergency credit needs of farmers suffering from natural disasters.

In addition, FmHA guarantees loans made by other lenders for farm ownership, farm operating, and rural single family housing. Application for these loans is made to the lending institution, which then applies to FmHA for the guarantee.

More information on all FmHA programs is available at FmHA County Offices.

If you are unable to locate the local FmHA office, write the Farmers Home Administration, U.S. Department of Agriculture, Washington, DC 20250. Be sure to give the name of the county in which you plan to settle or operate your farm.

Farmers Home Administration is an Equal Opportunity Lender.

Complaints of discrimination should be sent to:
Secretary of Agriculture, Washington, DC
20250